

CLARKE COUNTY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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CLARKE COUNTY

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Myron Manley	Board of Supervisors	Jan. 2007
Jack Cooley	Board of Supervisors	Jan. 2005
Donald Reasoner	Board of Supervisors	Jan. 2005
Judy Church	County Auditor	Jan. 2005
Kim Reynolds	County Treasurer	Jan. 2007
Pennie Gonseth	County Recorder	Jan. 2007
Mark Addison	County Sheriff	Jan. 2005
Elisabeth S. Reynoldson	County Attorney	Jan. 2007
Walt Paschell	County Assessor	Jan. 2004
(After January 2004)		
Myron Manley	Board of Supervisors	Jan. 2007
Jack Cooley	Board of Supervisors	Jan. 2005
Donald Reasoner	Board of Supervisors	Jan. 2005
Judy Church	County Auditor	Jan. 2005
Kim Reynolds	County Treasurer	Jan. 2007
Pennie Gonseth	County Recorder	Jan. 2007
Mark Addison	County Sheriff	Jan. 2005
Elisabeth S. Reynoldson	County Attorney	Jan. 2007
Walt Paschell	County Assessor	Jan. 2010

INDEPENDENT AUDITOR'S REPORT

To the Officials of Clarke County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clarke County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Clarke County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clarke County at June 30, 2004 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 14 to the financial statements, during the year ended June 30, 2004, Clarke County adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2004 on our consideration of Clarke County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 46 through 48 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

The County has not presented management's discussion and analysis, which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Clarke County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein). For the year ended June 30, 2003, we expressed a qualified opinion on those financial statements due to inadequate documentation of subrecipient monitoring. For the two years ended June 30, 2002, we expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
December 17, 2004

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Basic Financial Statements

CLARKE COUNTY
STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 4,386,370
Receivables:	
Property tax:	
Delinquent	27,712
Succeeding year	2,816,000
Interest and penalty on property tax	105,398
Accounts	44,929
Accrued interest	7,042
Due from other governments	436,824
Inventories	122,586
Prepaid expenses	151,523
Capital assets, net of accumulated depreciation (note 4)	<u>11,853,622</u>
Total assets	<u>19,952,006</u>
Liabilities	
Accounts payable	82,249
Salaries and benefits payable	137,452
Due to other governments (note 5)	116,936
Accrued interest payable	103,703
Deferred revenue:	
Succeeding year property tax	2,816,000
Other	59,444
Long-term liabilities (note 6):	
Portion due or payable within one year:	
General obligation bonds	55,000
Capital loan notes	108,750
Real estate purchase agreement	16,685
Local option sales and services tax revenue bonds	184,920
Compensated absences	129,352
Portion due or payable after one year:	
Installment purchase agreement	155,002
Capital loan notes	411,250
Real estate purchase agreement	100,758
Local option sales and services tax revenue bonds	3,032,780
Child care center revenue notes	<u>550,000</u>
Total liabilities	<u>8,060,281</u>

CLARKE COUNTY
STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 7,338,477
Restricted for:	
Supplemental levy purposes	238,995
Mental health purposes	70,743
Rural services	535,724
Secondary roads	1,263,795
Local option sales and services tax purposes	1,654,578
Debt service	4,045
Other special revenue purposes	175,327
Unrestricted	<u>610,041</u>
Total net assets	<u>\$ 11,891,725</u>

See notes to financial statements.

CLARKE COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
Governmental Activities:					
Public safety and legal services	\$ 1,421,196	\$ 424,436	\$ 34,549	\$ -	\$ (962,211)
Physical health and social services	849,197	140,206	292,748	-	(416,243)
Mental health	871,928	2,663	502,434	-	(366,831)
County environment and education	229,742	18,610	11,026	-	(200,106)
Roads and transportation	2,600,162	165,878	1,456,282	538,299	(439,703)
Government services to residents	279,376	161,515	36,885	-	(80,976)
Administration	722,151	57,146	-	-	(665,005)
Capital projects	188,708	-	-	-	(188,708)
Interest on long-term debt	174,934	-	73,245	-	(101,689)
Total	\$ 7,337,394	\$ 970,454	\$ 2,407,169	\$ 538,299	(3,421,472)
General Revenues:					
Property and other county tax levied for:					
General purposes					2,603,247
Debt service					101,148
Penalty and interest on property tax					60,447
State tax credits					133,689
Local option sales and services tax					663,914
Grants and contributions not restricted to a specific purpose					307,395
Unrestricted investment earnings					78,306
Miscellaneous					1,663
Total general revenues					3,949,809
Change in net assets					528,337
Net assets beginning of year, as restated (note 14)					11,363,388
Net assets end of year					\$ 11,891,725

See notes to financial statements.

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CLARKE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	<u>Special Revenue</u>			
	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>
Assets				
Cash and pooled investments	\$ 685,978	\$ 179,813	\$ 535,116	\$ 977,161
Receivables:				
Property tax:				
Delinquent	17,277	4,242	5,162	-
Succeeding year	1,718,000	409,000	544,000	-
Interest and penalty on property tax	105,398	-	-	-
Accounts	42,382	2,330	-	-
Accrued interest	6,701	-	-	-
Due from other governments	73,129	-	-	263,844
Inventories	-	-	-	122,586
Prepaid expenses	88,855	-	-	43,251
Total assets	<u>\$ 2,737,720</u>	<u>\$ 595,385</u>	<u>\$ 1,084,278</u>	<u>\$ 1,406,842</u>

<u>Local Option Sales and Services Tax Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,093,948	\$ 742,531	\$ 4,214,547
-	1,031	27,712
-	145,000	2,816,000
-	-	105,398
-	217	44,929
-	75	6,776
85,655	14,196	436,824
-	-	122,586
-	-	132,106
<u>\$ 1,179,603</u>	<u>\$ 903,050</u>	<u>\$ 7,906,878</u>

CLARKE COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 25,094	\$ 8,801	\$ 151	\$ 44,783
Salaries and benefits payable	88,364	329	4,403	44,356
Due to other governments (note 5)	10,424	106,512	-	-
Deferred revenue:				
Succeeding year property tax	1,718,000	409,000	544,000	-
Other	122,675	4,242	5,162	-
Total liabilities	<u>1,964,557</u>	<u>528,884</u>	<u>553,716</u>	<u>89,139</u>
Fund balance:				
Reserved for:				
Inventories	-	-	-	122,586
Prepaid expenses	88,855	-	-	43,251
Supplemental levy purposes	174,488	-	-	-
Debt service	-	-	-	-
Local option sales and services tax revenue bonds	-	-	-	-
Unreserved, reported in:				
General fund	509,820	-	-	-
Special revenue funds	-	66,501	530,562	1,151,866
Total fund balances	<u>773,163</u>	<u>66,501</u>	<u>530,562</u>	<u>1,317,703</u>
Total liabilities and fund balances	<u>\$ 2,737,720</u>	<u>\$ 595,385</u>	<u>\$ 1,084,278</u>	<u>\$ 1,406,842</u>

See notes to financial statements.

<u>Local Option</u> <u>Sales and</u> <u>Services Tax</u> <u>Revenue</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
\$ -	\$ -	\$ 78,829
-	-	137,452
-	-	116,936
-	145,000	2,816,000
-	1,031	133,110
-	146,031	3,282,327
-	-	122,586
-	-	132,106
-	-	174,488
-	31,941	31,941
-	549,751	549,751
-	-	509,820
1,179,603	175,327	3,103,859
1,179,603	757,019	4,624,551
<u>\$ 1,179,603</u>	<u>\$ 903,050</u>	<u>\$ 7,906,878</u>

CLARKE COUNTY

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balances of governmental funds	\$ 4,624,551
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. The cost of assets is \$16,855,134 and the accumulated depreciation is \$5,001,512.	11,853,622
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	133,110
The Internal Service Fund is used by management to charge the costs of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets.	128,642
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(103,703)
Long-term liabilities, including bonds payable, notes payable, purchase agreements payable, and compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(4,744,497)</u>
Net assets of governmental activities	<u>\$ 11,891,725</u>
See notes to financial statements	

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CLARKE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other County tax	\$ 1,963,060	\$ 407,486	\$ 553,392	\$ -
Interest and penalty on property tax	48,662	-	-	-
Intergovernmental	891,537	522,054	29,311	1,733,371
Licenses and permits	5,367	-	5,375	345
Charges for service	207,267	-	576	322
Use of money and property	81,471	-	-	-
Miscellaneous	83,416	2,663	6,580	165,211
Total revenues	3,280,780	932,203	595,234	1,899,249
Expenditures:				
Operating:				
Public safety and legal services	1,324,079	-	-	-
Physical health and social services	849,017	-	-	-
Mental health	-	871,928	-	-
County environment and education	132,978	-	86,695	-
Roads and transportation	-	-	-	2,158,595
Government services to residents	275,606	-	-	-
Administration	679,515	-	-	-
Debt service	-	-	-	81,964
Capital projects	99,155	-	-	327,925
Total expenditures	3,360,350	871,928	86,695	2,568,484
Excess (deficiency) of revenues over (under) expenditures	(79,570)	60,275	508,539	(669,235)
Other financing sources (uses):				
Sale of capital assets	752	-	-	-
Interfund transfers in	19,615	-	-	425,000
Interfund transfers out	(6,089)	-	(425,000)	-
Capital loan notes issued	100,000	-	-	-
Total other financing sources (uses)	114,278	-	(425,000)	425,000

Local Option Sales and Services Tax Revenue		Nonmajor Governmental Funds	Total
\$	663,914	\$ 101,753	\$ 3,689,605
	-	-	48,662
	-	87,083	3,263,356
	-	-	11,087
	-	39,652	247,817
	-	5,568	87,039
	-	1,532	259,402
	663,914	235,588	7,606,968
	-	-	1,324,079
	-	-	849,017
	-	-	871,928
	-	-	219,673
	-	-	2,158,595
	-	-	275,606
	-	-	679,515
	211,810	359,049	652,823
	-	-	427,080
	211,810	359,049	7,458,316
	452,104	(123,461)	148,652
	-	-	752
	-	748,405	1,193,020
	(753,683)	(8,248)	(1,193,020)
	-	-	100,000
	(753,683)	740,157	100,752

CLARKE COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	<u>Special Revenue</u>			
	<u>General</u>	<u>Mental Health</u>	<u>Rural Services</u>	<u>Secondary Roads</u>
Net change in fund balances	\$ 34,708	\$ 60,275	\$ 83,539	\$ (244,235)
Fund balances beginning of year, as restated (note 14)	<u>738,455</u>	<u>6,226</u>	<u>447,023</u>	<u>1,561,938</u>
Fund balances end of year	<u>\$ 773,163</u>	<u>\$ 66,501</u>	<u>\$ 530,562</u>	<u>\$ 1,317,703</u>

See notes to financial statements.

<u>Local Option Sales and Services Tax Revenue</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ (301,579)	\$ 616,696	\$ 249,404
<u>1,481,182</u>	<u>140,323</u>	<u>4,375,147</u>
<u>\$ 1,179,603</u>	<u>\$ 757,019</u>	<u>\$ 4,624,551</u>

CLARKE COUNTY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ 249,404

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures while
governmental activities report depreciation expense to allocate those
expenditures over the life of the assets. The amount of capital outlays and
depreciation expense in the current year are as follows:

	Capital outlays	\$ 266,383	
Capital assets contributed by the Iowa Department of Transportation	261,210		
Depreciation expense	<u>(602,315)</u>		(74,722)

Because some revenues will not be collected for several months after the
County's year end, they are not considered available revenues and are
deferred in the governmental funds.

	Property tax	(6,318)
--	--------------	---------

Capital loan note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(100,000)
--	--	-----------

Repayment of bond, note, and purchase agreement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		473,693
--	--	---------

Some expenses reported in the statement of activities do not require the use
of current financial resources and, therefore, are not reported as
expenditures in governmental funds, as follows:

	Compensated absences	(21,489)	
Interest on long-term debt	<u>4,196</u>		(17,293)

The Internal Service Fund is used by management to charge the costs of
employee health benefits to individual funds. The change in net assets
of the Internal Service Fund is reported with governmental activities.

		<u>3,573</u>
Change in net assets of governmental activities		<u>\$ 528,337</u>

See notes to financial statements.

CLARKE COUNTY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2004

	Internal Service - Principal Health
	<u> </u>
Assets	
Cash and cash equivalents	\$ 171,823
Accrued interest receivable	266
Prepaid expenses	<u>19,417</u>
Total assets	<u>191,506</u>
Liabilities	
Accounts payable	3,420
Deferred revenue	<u>59,444</u>
Total liabilities	<u>62,864</u>
Net Assets	
Unrestricted	\$ <u><u>128,642</u></u>

See notes to financial statements.

CLARKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2004

	Internal Service - Principal Health
Operating revenues:	
Charges to operating funds	\$ 474,009
Charges to employees and others	<u>100,821</u>
Total operating revenues	<u>574,830</u>
Operating expenses:	
Medical claims	379,089
Insurance premiums	<u>195,287</u>
Total operating expenses	<u>574,376</u>
Operating income	454
Non-operating revenues:	
Interest on investments	<u>3,119</u>
Net income	3,573
Net assets beginning of year	<u>125,069</u>
Net assets end of year	<u>\$ 128,642</u>

See notes to financial statements.

CLARKE COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2004

	Internal Service - Principal Health
Cash flows from operating activities:	
Cash received from operating fund reimbursements	\$ 492,430
Cash received from employees and others	100,821
Cash payments to suppliers for services	<u>(575,901)</u>
Net cash provided by operating activities	<u>17,350</u>
Cash flows from investing activities:	
Interest on investments	<u>3,124</u>
Net increase in cash and cash equivalents	20,474
Cash and cash equivalents at beginning of year	<u>151,349</u>
Cash and cash equivalents at end of year	<u>\$ 171,823</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 454
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) in prepaid expenses	(4,945)
Increase in accounts payable	3,420
Increase in deferred revenue	<u>18,421</u>
Net cash provided by operating activities	<u>\$ 17,350</u>

See notes to financial statements.

CLARKE COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004

Assets

Cash and pooled investments:

County Treasurer	\$ 504,886
Other County officials	28,066

Property tax receivable:

Delinquent	112,457
Succeeding year	8,305,000

Due from other governments	26,505
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Total assets	<u>8,976,914</u>
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Liabilities

Accounts payable	22,266
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Salaries and benefits payable	5,362
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Due to other governments (note 5)	8,927,416
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Trusts payable	13,742
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Compensated absences	<u>8,128</u>
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Total liabilities	<u>8,976,914</u>
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Net assets	<u><u>\$ -</u></u>
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See notes to financial statements.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS Year Ended June 30, 2004

Note 1. Summary of Significant Accounting Policies

Clarke County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Clarke County has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County. The County has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Clarke County Assessor's Conference Board, Clarke County Hospital Board, and Clarke County Environmental Services Board, which handles the Emergency Management System. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

B. Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other nonexchange transactions.

The statement of net assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the main operating fund of the County. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the County outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

The Local Option Sales and Services Tax Revenue Fund is used to account for the County's revenues and disbursements related to the local option sales and services tax.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Additionally, the County reports the following funds:

Proprietary Fund - An Internal Service Fund is used to account for the financing of goods or services purchased by one department of the County and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds - Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds. Agency Funds are custodial in nature, assets equal liabilities, and do not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

The proprietary fund of the County applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's internal service fund are charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March 2003.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Infrastructure	\$ 250,000
Land, buildings and improvements	5,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50
Improvements other than buildings	10-50
Infrastructure	10-65
Equipment	3-20
Vehicles	5-15

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end and July health insurance premiums which have already been received by the Internal Service Health Fund.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment of vacation hours upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary fund and fiduciary fund financial statements. A liability for these amounts is recorded in the governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Secondary Roads Funds.

Long-term Liabilities – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function and disbursements in the Health Board department exceeded the amount appropriated.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 2. Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. The chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County's funds are all deposited in financial institution depository accounts.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	\$ 425,000
Conservation Land Acquisition	General	5,000
Local Option Sales and Services Tax Revenue Bond and Interest Sinking	Special Revenue: Local Option Sales and Services Tax Revenue	366,068
Local Option Sales and Services Tax Reserve	Local Option Sales and Services Tax Revenue	368,000
General	Local Option Sales and Services Tax Revenue	19,615
Debt Service: Courthouse Projects	Debt Service: Child Care Center Reserve	8,248
Debt Service: Courthouse Projects	General	<u>1,089</u>
Total		<u>\$ 1,193,020</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 4. Capital Assets

A summary of capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as Restated (note 14)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 372,654	\$ -	\$ -	\$ 372,654
Construction in progress	-	238,372	-	238,372
Total capital assets not being depreciated	<u>372,654</u>	<u>238,372</u>	<u>-</u>	<u>611,026</u>
Capital assets being depreciated:				
Buildings	6,137,340 *	-	-	6,137,340
Machinery and equipment	3,035,358 *	28,011	-	3,063,369
Infrastructure	6,782,189	261,210	-	7,043,399
Total capital assets being depreciated	<u>15,954,887</u>	<u>289,221</u>	<u>-</u>	<u>16,244,108</u>
Less accumulated depreciation for:				
Buildings	969,568	110,847	-	1,080,415
Machinery and equipment	1,621,288	256,688	-	1,877,976
Infrastructure	1,808,341	234,780	-	2,043,121
Total accumulated depreciation	<u>4,399,197</u>	<u>602,315</u>	<u>-</u>	<u>5,001,512</u>
Total capital assets being depreciated, net	<u>11,555,690</u>	<u>(313,094)</u>	<u>-</u>	<u>11,242,596</u>
Governmental activities capital assets, net	<u>\$ 11,928,344</u>	<u>\$ (74,722)</u>	<u>\$ -</u>	<u>\$ 11,853,622</u>

* = In preparation for implementing Governmental Accounting Standards Board Statement No. 34, the County has increased its capitalization limit to \$5,000. The effect of this change included the removal of \$31,000 of items previously classified as buildings and \$614,022 of items previously classified as machinery and equipment. The beginning balances have been adjusted to reflect these changes.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 4. Capital Assets (continued)

Depreciation expense was charged to the following functions:

Governmental activities:

Public safety and legal services	\$ 113,508
County environment and education	10,363
Roads and transportation	430,837
Government services to residents	912
Administration	<u>46,695</u>

Total depreciation expense - governmental activities	<u><u>\$ 602,315</u></u>
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Note 5. Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Services and Collections</u>	<u>Delinquent and Succeeding Year Property Taxes</u>	<u>Total</u>
General	Services	\$ <u>10,424</u>	\$ <u>-</u>	\$ <u>10,424</u>
Special Revenue:				
Mental Health	Services	<u>106,512</u>	<u>-</u>	<u>106,512</u>
Total for governmental funds		<u><u>\$ 116,936</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 116,936</u></u>
Agency:				
County Assessor	Collections	\$ 51,401	\$ 180,933	\$ 232,334
Schools		79,795	4,225,875	4,305,670
Area Schools		3,352	184,962	188,314
Corporations		31,538	2,401,147	2,432,685
County Hospital		20,451	1,261,970	1,282,421
Auto License and Use Tax		162,492	-	162,492
All Other		<u>160,930</u>	<u>162,570</u>	<u>323,500</u>
Total for agency funds		<u><u>\$ 509,959</u></u>	<u><u>\$ 8,417,457</u></u>	<u><u>\$ 8,927,416</u></u>

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 105,000	\$ -	\$ 50,000	\$ 55,000	\$ 55,000
Installment Purchase Agreement	308,292	-	153,290	155,002	-
Capital Loan Notes	490,000	100,000	70,000	520,000	108,750
Real Estate Purchase Agreement	132,926	-	15,483	117,443	16,685
Local Option Sales and Services					
Tax Revenue Bonds	3,402,620	-	184,920	3,217,700	184,920
Child Care Center Revenue Notes	550,000	-	-	550,000	-
Compensated Absences	107,863	129,352	107,863	129,352	129,352
Total	<u>\$ 5,096,701</u>	<u>\$ 229,352</u>	<u>\$ 581,556</u>	<u>\$ 4,744,497</u>	<u>\$ 494,707</u>

Bonds Payable

Details of the County's June 30, 2004 general obligation bonds indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	5.75 %	\$ <u>55,000</u>	\$ <u>3,163</u>	\$ <u>58,163</u>

The County retired \$50,000 of general obligation bonds during the year ended June 30, 2004.

Installment Purchase Agreement

During the year ended June 30, 2003, the County entered into an installment purchase agreement for the purchase of two new graders. The contract is payable in four annual installments of \$81,964 beginning July 20, 2003, including interest at an effective rate of 3.75%.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 6. Long-Term Liabilities (continued)

Installment Purchase Agreement (continued)

Details of the County's June 30, 2004 installment purchase agreement indebtedness are as follows:

Year Ending June 30,	Graders		
	Principal	Interest	Total
2005	\$ -	\$ -	-
2006	76,050	5,914	81,964
2007	78,952	3,012	81,964
Total	\$ <u>155,002</u>	\$ <u>8,926</u>	\$ <u>163,928</u>

The County retired \$153,290 of the installment purchase agreement during the year ended June 30, 2004.

Capital Loan Notes Payable

During the year ended June 30, 2004, the County approved the issuance of \$155,000 of capital loan notes on a draw down basis. As of June 30, 2004, \$100,000 had been drawn. The proceeds are being used for County computer upgrades.

A summary of the County's June 30, 2004, general obligation capital loan note indebtedness is as follows:

Year Ending June 30,	Series Dated September 1, 1994			Series Dated July 15, 1999		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2005	5.55 %	\$ 30,000	\$ 12,855	4.625 %	\$ 40,000	\$ 9,250
2006	5.65	35,000	11,190	4.625	40,000	7,400
2007	5.75	35,000	9,213	4.625	40,000	5,550
2008	5.90	40,000	7,200	4.625	40,000	3,710
2009	6.00	40,000	4,840	4.625	40,000	1,850
2010	6.10	40,000	2,440	4.625	-	-
		\$ <u>220,000</u>	\$ <u>47,738</u>		\$ <u>200,000</u>	\$ <u>27,760</u>

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 6. Long-Term Liabilities (continued)

Capital Loan Notes Payable (continued)

Year Ending June 30,	Series Dated January 15, 2004			Total	
	Interest Rates	Principal	Interest	Principal	Interest
2005	3.70 %	\$ 38,750	\$ 4,085	\$ 108,750	\$ 26,190
2006	3.70	38,750	2,266	113,750	20,856
2007	3.70	22,500	833	97,500	15,596
2008	-	-	-	80,000	10,910
2009	-	-	-	80,000	6,690
2010	-	-	-	40,000	2,440
		<u>\$ 100,000</u>	<u>\$ 7,184</u>	<u>\$ 520,000</u>	<u>\$ 82,682</u>

The County issued \$100,000 and retired \$70,000 in general obligation capital loan notes during the year ended June 30, 2004.

Real Estate Purchase Agreement

During the year ended June 30, 2000, the County entered into an agreement to purchase 6.2 acres of land, at a cost of \$175,000, for the new jail site. The contract is payable in 120 monthly installments of \$2,077 commencing April 4, 2000, including interest at an effective annual rate of 7.763%.

A summary of the County's June 30, 2004 real estate contract purchase agreement indebtedness is as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 16,685	\$ 8,242	\$ 24,927
2006	17,980	6,947	24,927
2007	19,376	5,551	24,927
2008	20,880	4,047	24,927
2009	22,501	2,426	24,927
2010	20,021	680	20,701
Total	<u>\$ 117,443</u>	<u>\$ 27,893</u>	<u>\$ 145,336</u>

The County retired \$15,483 of the real estate purchase agreement during the year ended June 30, 2004.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 6. Long-Term Liabilities (continued)

Local Option Sales and Services Tax Revenue Bonds

Details of the County's June 30, 2004 local option sales and services tax revenue bonds are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	5.55 %	\$ 184,920	\$ 176,017	\$ 360,937
2006	5.55	184,920	165,754	350,674
2007	5.55	184,920	155,490	340,410
2008	5.55	184,920	145,227	330,147
2009	5.55	184,920	134,964	319,884
2010	5.55	184,920	124,701	309,621
2011	5.55	184,920	114,438	299,358
2012	5.55	1,923,260	53,370	1,976,630
Total		<u>\$ 3,217,700</u>	<u>\$ 1,069,961</u>	<u>\$ 4,287,661</u>

The County retired \$184,920 of local sales and services tax revenue bonds during the year ended June 30, 2004.

The local option sales and services tax revenue bonds were issued for the purpose of refunding the jail construction draw-down loan. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the County and local participating incorporated and unincorporated areas in accordance with Chapter 422B.12 of the Code of Iowa. The bonds are not a general obligation of the County. The debt, however, is subject to the constitutional debt limitation of the County.

The resolution providing for the issuance of the local option sales and services revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the local option sales and services tax revenues received by the County and the bond holders hold a lien on the future revenues received.
- (b) Sufficient monthly deposits amounting to one sixth of the next principal and interest payments shall be made to the Local Option Sales and Services Tax Revenue Bond and Interest Sinking Fund for the purpose of making the bond principal and interest payments when due.
- (c) A separate bond reserve fund will be maintained in the amount of \$368,000 to be used solely for the purpose of paying principal and interest in the event the revenue fund does not have sufficient funds for that purpose. This fund is called the Local Option Sales and Services Tax Reserve Fund.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 6. Long-Term Liabilities (continued)

Child Care Center Revenue Notes

Details of the County's June 30, 2004 child care center revenue notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2005	4.75 %	\$ -	\$ 26,125	\$ 26,125
2006	4.75	5,407	26,125	31,532
2007	4.75	5,664	25,868	31,532
2008	4.75	5,933	25,599	31,532
2009	4.75	6,215	25,317	31,532
2010-2014	4.75	35,792	121,868	157,660
2015-2019	4.75	45,139	112,521	157,660
2020-2024	4.75	56,928	100,732	157,660
2025-2029	4.75	71,795	85,865	157,660
2030-2034	4.75	90,545	67,115	157,660
2035-2039	4.75	114,192	43,468	157,660
2040-2043	4.75	112,390	13,656	126,046
Total		\$ 550,000	\$ 674,259	\$ 1,224,259

In August 2002, the County entered into a USDA Rural Development loan agreement for Child Care Center Revenue Notes in the amount of \$550,000 to finance a portion of the cost of the construction and furnishing of a child care and early education center. The notes will be paid over forty years with an annual interest rate of 4.75%. The notes are payable solely from the revenues of the child care center, which is to be operated by The Village, Ltd., an Iowa nonprofit corporation. The notes are not a general obligation of the County and are not subject to the constitutional debt limitation of the County.

The resolution providing for the issuance of the child care center revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the revenues derived from the operation of the child care center. Revenues sufficient to pay principal and interest on the notes are to be received from the The Village, Ltd. by July 1 of each year when the payment is due.
- (b) Monthly deposits of \$263 from the child care center shall be made to the Child Care Center Reserve Fund until the sum of \$31,532 has been accumulated in the fund. The fund is to be used solely for the purpose of paying principal and interest in the event the revenue fund does not have sufficient funds for that purpose.
- (c) Monthly deposits of \$200 from the child care center shall also be made to the Child Care Center Reserve Fund for funded depreciation.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS Year Ended June 30, 2004

Note 7. Radio Equipment Operating Lease

The Secondary Roads Department is leasing a radio communications system with monthly lease payments of \$570. Effective October 2004, the monthly lease payment changed to \$646. The lease is indefinite but the monthly lease payments per radio unit used are guaranteed until June 30, 2008. The County has the option to cancel the lease at any time. The minimum lease payments due in the next year is \$7,524. Rental expense for the year ended June 30, 2004 was \$6,270.

Note 8. Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages are 4.99% and 7.48%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$150,230, \$134,036, and \$128,155, respectively, equal to the required contributions for each year.

Note 9. Risk Management

Clarke County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$104,454.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS Year Ended June 30, 2004

Note 9. Risk Management (continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Employee Health Insurance Plan

The County provides health coverage through a minimum premium health insurance plan which is administered by Principal Financial Group (Principal). The County purchases commercial insurance to provide for aggregate stop-loss coverage and specific stop-loss reinsurance coverage. Settled claims have not exceeded the commercial coverage in the plan year ended June 30, 2004.

Monthly payments of service fees and plan contributions to the Clarke County Principal Health Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Principal from the Clarke County Principal Health Fund. The County records the plan assets and related liabilities of the Principal Health Fund as an Internal Service Fund. The County's contributions to the fund for the year ended June 30, 2004 were \$474,009.

CLARKE COUNTY

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 11. Construction Commitment

The County has entered into contracts totaling \$526,441 for bridge construction. As of June 30, 2004, costs of \$238,372 have been incurred against the contracts. The balance remaining at June 30, 2004 of \$288,069 will be paid as work on the projects progresses.

Note 12. Contingent Liability

Hospital Revenue Bonds

Clarke County has issued general obligation hospital revenue bonds in accordance with Chapter 347A.1 of the Code of Iowa. The proceeds were used to remodel the hospital and build an ambulance garage. The bonds are payable primarily from revenues of the hospital. The balance of bonds unpaid at June 30, 2004 is \$975,000. The County is contingently liable for any debt service payments not covered by hospital revenues.

Note 13. Subsequent Event

On December 8, 2004, the County approved a draw down of \$25,000 on the 2004 series capital loan notes.

Note 14. Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the County’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements report the County’s governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

CLARKE COUNTY
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2004

Note 14. Accounting Change (continued)

	<u>Total</u>
Net assets, June 30, 2003, as previously reported	\$ 4,352,724
GASB Interpretation 6 adjustments	<u>22,423</u>
Net assets, July 1, 2003, as restated for governmental funds	4,375,147
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$4,399,197	11,928,344
Long-term liabilities:	
Bonds and notes	(4,547,620)
Purchase agreements	(441,218)
Compensated absences	(107,863)
Internal service fund	125,069
Accrued interest payable	(107,899)
Change in deferral of long-term assets	<u>139,428</u>
Net assets, July 1, 2003, as restated	<u><u>\$ 11,363,388</u></u>

Required Supplementary Information

CLARKE COUNTY

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds
Required Supplementary Information
Year Ended June 30, 2004

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
RECEIPTS:				
Property and other County tax	\$ 3,704,297	\$ 3,501,502	\$ 3,501,502	\$ 202,795
Interest and penalty on property tax	48,662	40,000	40,000	8,662
Intergovernmental	3,159,068	2,686,923	3,371,807	(212,739)
Licenses and permits	10,470	12,518	12,518	(2,048)
Charges for service	230,025	228,520	228,520	1,505
Use of money and property	105,323	62,636	62,636	42,687
Miscellaneous	255,149	236,850	239,850	15,299
Total receipts	<u>7,512,994</u>	<u>6,768,949</u>	<u>7,456,833</u>	<u>56,161</u>
DISBURSEMENTS:				
Public safety and legal services	1,332,288	1,263,382	1,367,178	34,890
Physical health and social services	856,671	830,062	875,546	18,875
Mental health	855,922	967,866	967,866	111,944
County environment and education	217,646	226,201	233,542	15,896
Roads and transportation	2,126,844	2,113,697	2,345,052	218,208
Government services to residents	273,779	262,265	285,860	12,081
Administration	691,649	664,713	720,666	29,017
Debt service	652,823	574,510	574,510	(78,313)
Capital projects	466,903	161,740	993,240	526,337
Total disbursements	<u>7,474,525</u>	<u>7,064,436</u>	<u>8,363,460</u>	<u>888,935</u>
Excess (deficiency) of receipts over (under) disbursements	38,469	(295,487)	(906,627)	945,096
Other financing sources, net	<u>100,752</u>	<u>70,915</u>	<u>195,915</u>	<u>(95,163)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	139,221	(224,572)	(710,712)	849,933
Balance beginning of year	<u>4,075,326</u>	<u>3,452,548</u>	<u>3,452,548</u>	<u>622,778</u>
Balance end of year	<u>\$ 4,214,547</u>	<u>\$ 3,227,976</u>	<u>\$ 2,741,836</u>	<u>\$ 1,472,711</u>

See accompanying independent auditor's report.

CLARKE COUNTY

Budgetary Comparison Schedule – Budget to GAAP Reconciliation Required Supplementary Information Year Ended June 30, 2004

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 7,512,994	\$ 93,974	\$ 7,606,968
Expenditures	7,474,525	(16,209)	7,458,316
Net	38,469	110,183	148,652
Other financing sources	100,752	-	100,752
Beginning fund balances, as restated	4,075,326	299,821	4,375,147
Ending fund balances	<u>\$ 4,214,547</u>	<u>\$ 410,004</u>	<u>\$ 4,624,551</u>

See accompanying independent auditor's report.

CLARKE COUNTY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and agency funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon ten major classes of expenditures known as functions, not by fund or fund type. These ten functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, government services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund and capital projects funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not at the fund or fund type level. Legal budgetary control is also based upon the appropriation to each office or department. During the year, two budget amendments increased budgeted disbursements by \$1,299,024. These budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, and for Emergency Management Services by the County Environmental Services Board.

During the year ended June 30, 2004, disbursements exceeded the amount budgeted in the debt service function and disbursements in the Health Board department exceeded the amount appropriated.

Other Supplementary Information

CLARKE COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	Special Revenue				
	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	REAP	Conservation Land Acquisition	Environmental Education
Assets					
Cash and pooled investments	\$ 5,583	\$ 22,690	\$ 53,109	\$ 55,791	\$ 19,956
Receivables:					
Property tax:					
Delinquent	-	-	-	-	-
Succeeding year	-	-	-	-	-
Accounts	217	-	-	-	-
Accrued interest	-	17	48	-	10
Due from other governments	-	14,196	-	-	-
Total assets	\$ <u>5,800</u>	\$ <u>36,903</u>	\$ <u>53,157</u>	\$ <u>55,791</u>	\$ <u>19,966</u>
Liabilities and Fund Equity					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-	-
Total liabilities	-	-	-	-	-
Fund equity:					
Fund balances:					
Reserved for:					
Debt service	-	-	-	-	-
Local option sales and service tax revenue bonds	-	-	-	-	-
Unreserved	5,800	36,903	53,157	55,791	19,966
Total fund equity	5,800	36,903	53,157	55,791	19,966
Total liabilities and fund equity	\$ <u>5,800</u>	\$ <u>36,903</u>	\$ <u>53,157</u>	\$ <u>55,791</u>	\$ <u>19,966</u>

See accompanying independent auditor's report.

County Attorney Forfeiture	Debt Service					
	Local Option Sales and Services Tax Revenue Bond and Interest Sinking	Local Option Sales and Services Tax Reserve	Courthouse Projects	Landfill Project	Child Care Center Reserve	Total
\$ 3,710	\$ 181,751	\$ 368,000	\$ 25,351	\$ 1,960	\$ 4,630	\$ 742,531
-	-	-	1,031	-	-	1,031
-	-	-	145,000	-	-	145,000
-	-	-	-	-	-	217
-	-	-	-	-	-	75
-	-	-	-	-	-	14,196
<u>\$ 3,710</u>	<u>\$ 181,751</u>	<u>\$ 368,000</u>	<u>\$ 171,382</u>	<u>\$ 1,960</u>	<u>\$ 4,630</u>	<u>\$ 903,050</u>
\$ -	\$ -	\$ -	\$ 145,000	\$ -	\$ -	\$ 145,000
-	-	-	1,031	-	-	1,031
-	-	-	146,031	-	-	146,031
-	-	-	25,351	1,960	4,630	31,941
-	181,751	368,000	-	-	-	549,751
3,710	-	-	-	-	-	175,327
<u>3,710</u>	<u>181,751</u>	<u>368,000</u>	<u>25,351</u>	<u>1,960</u>	<u>4,630</u>	<u>757,019</u>
<u>\$ 3,710</u>	<u>\$ 181,751</u>	<u>\$ 368,000</u>	<u>\$ 171,382</u>	<u>\$ 1,960</u>	<u>\$ 4,630</u>	<u>\$ 903,050</u>

CLARKE COUNTY

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	Special Revenue				
	County Recorder's Records Management	County Recorder's Electronic Transaction Fee	REAP	Conservation Land Acquisition	Environmental Education
Revenues:					
Property and other County tax	\$ -	\$ -	\$ -	\$ -	-
Intergovernmental	-	-	8,995	-	-
Charges for service	2,767	36,885	-	-	-
Use of money and property	54	18	459	4,923	114
Miscellaneous	-	-	-	-	1,532
Total revenues	2,821	36,903	9,454	4,923	1,646
Expenditures:					
Debt service	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	2,821	36,903	9,454	4,923	1,646
Other financing sources (uses):					
Interfund transfers in	-	-	-	5,000	-
Interfund transfers (out)	-	-	-	-	-
Total other financing sources (uses)	-	-	-	5,000	-
Net change in fund balances	2,821	36,903	9,454	9,923	1,646
Fund balances beginning of year	2,979	-	43,703	45,868	18,320
Fund balances end of year	\$ 5,800	\$ 36,903	\$ 53,157	\$ 55,791	\$ 19,966

See accompanying independent auditor's report.

County Attorney Forfeiture	Debt Service					
	Local Option Sales and Services Tax Revenue Bond and Interest Sinking	Local Option Sales and Services Tax Reserve	Courthouse Projects	Landfill Project	Child Care Center Reserve	Total
\$ -	\$ -	\$ -	\$ 101,753	\$ -	\$ -	\$ 101,753
-	-	-	28,668	44,790	4,630	87,083
-	-	-	-	-	-	39,652
-	-	-	-	-	-	5,568
-	-	-	-	-	-	1,532
-	-	-	130,421	44,790	4,630	235,588
-	184,317	-	129,942	44,790	-	359,049
-	(184,317)	-	479	-	4,630	(123,461)
-	366,068	368,000	9,337	-	-	748,405
-	-	-	-	-	(8,248)	(8,248)
-	366,068	368,000	9,337	-	(8,248)	740,157
-	181,751	368,000	9,816	-	(3,618)	616,696
3,710	-	-	15,535	1,960	8,248	140,323
\$ 3,710	\$ 181,751	\$ 368,000	\$ 25,351	\$ 1,960	\$ 4,630	\$ 757,019

CLARKE COUNTY

COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

June 30, 2004

	<u>County Offices</u>		<u>Agricultural</u>	<u>County</u>
	<u>County</u>	<u>County</u>	<u>Extension</u>	<u>Assessor</u>
	<u>Recorder</u>	<u>Sheriff</u>	<u>Education</u>	
ASSETS				
Cash and pooled investments:				
County Treasurer	\$ -	\$ -	1,052	\$ 62,448
Other County officials	7,277	20,789	-	-
Receivables:				
Property tax:				
Delinquent	-	-	618	1,933
Succeeding year	-	-	57,000	179,000
Due from other governments	-	-	-	-
Total assets	<u>\$ 7,277</u>	<u>\$ 20,789</u>	<u>\$ 58,670</u>	<u>\$ 243,381</u>
LIABILITIES				
Accounts payable	\$ 7,171	\$ 8,448	-	\$ 162
Salaries and benefits payable	-	-	-	4,082
Due to other governments	106	-	58,670	232,334
Trusts payable	-	12,341	-	-
Compensated absences	-	-	-	6,803
Total liabilities	<u>\$ 7,277</u>	<u>\$ 20,789</u>	<u>\$ 58,670</u>	<u>\$ 243,381</u>

<u>Schools</u>	<u>Area Schools</u>	<u>Corporations</u>	<u>Townships</u>	<u>City Special Assessments</u>	<u>County Hospital</u>	<u>Brucellosis and Tuberculosis Eradication</u>
\$ 79,795	\$ 3,352	\$ 31,538	\$ 2,111	\$ 3,728	\$ 20,451	\$ 21
-	-	-	-	-	-	-
47,875	1,962	47,147	940	-	11,970	12
4,178,000	183,000	2,354,000	103,000	-	1,250,000	1,000
-	-	-	-	-	-	-
<u>\$ 4,305,670</u>	<u>\$ 188,314</u>	<u>\$ 2,432,685</u>	<u>\$ 106,051</u>	<u>\$ 3,728</u>	<u>\$ 1,282,421</u>	<u>\$ 1,033</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
4,305,670	188,314	2,432,685	106,051	3,728	1,282,421	1,033
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 4,305,670</u>	<u>\$ 188,314</u>	<u>\$ 2,432,685</u>	<u>\$ 106,051</u>	<u>\$ 3,728</u>	<u>\$ 1,282,421</u>	<u>\$ 1,033</u>

CLARKE COUNTY

COMBINING SCHEDULE OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

June 30, 2004

	Auto License and Use Tax	Advance Tax	Tax Sale Redemption	Emergency Management
ASSETS				
Cash and pooled investments:				
County Treasurer	\$ 168,937	\$ 139,403	\$ 1,401	\$ 12,892
Other County officials	-	-	-	-
Receivables:				
Property tax:				
Delinquent	-	-	-	-
Succeeding year	-	-	-	-
Due from other governments	-	-	-	3,177
Total assets	<u>\$ 168,937</u>	<u>\$ 139,403</u>	<u>\$ 1,401</u>	<u>\$ 16,069</u>
LIABILITIES				
Accounts payable	\$ 6,445	\$ -	\$ -	\$ -
Salaries and benefits payable	-	-	-	1,280
Due to other governments	162,492	139,403	-	13,424
Trusts payable	-	-	1,401	-
Compensated absences	-	-	-	1,365
Total liabilities	<u>\$ 168,937</u>	<u>\$ 139,403</u>	<u>\$ 1,401</u>	<u>\$ 16,069</u>

See accompanying independent auditor's report.

County Recorder's Electronic Transaction Fee	Homemakers Health Payroll	Total
\$ -	\$ (22,243)	\$ 504,886
-	-	28,066
-	-	112,457
-	-	8,305,000
<u>1,085</u>	<u>22,243</u>	<u>26,505</u>
\$ <u><u>1,085</u></u>	\$ <u><u>-</u></u>	\$ <u><u>8,976,914</u></u>
\$ -	\$ -	\$ 22,226
-	-	5,362
1,085	-	8,927,416
-	-	13,742
<u>-</u>	<u>-</u>	<u>8,168</u>
\$ <u><u>1,085</u></u>	\$ <u><u>-</u></u>	\$ <u><u>8,976,914</u></u>

CLARKE COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

Year Ended June 30, 2004

	County Offices		Agricultural	County
	County	County	Extension	County
	Recorder	Sheriff	Education	Assessor
ASSETS AND LIABILITIES				
Balances beginning of year	\$ 7,911	\$ 38,650	\$ 60,978	\$ 275,687
Additions:				
Property and other County tax	-	-	57,234	179,466
State tax credits	-	-	2,860	8,940
Public Disaster Assistance Grants	-	-	-	-
Office fees and collections	138,848	347,539	-	-
Auto license, use tax, drivers license and postage	-	-	-	-
Trusts	66	151,539	-	-
Assessments	-	-	-	-
Miscellaneous	-	-	-	2,787
Total additions	138,914	499,078	60,094	191,193
Deductions:				
Agency remittances:				
To other funds	90,601	372,985	-	-
To other governments	48,881	685	62,402	223,499
Trusts paid out	66	143,269	-	-
Total deductions	139,548	516,939	62,402	223,499
Balances end of year	\$ 7,277	\$ 20,789	\$ 58,670	\$ 243,381

<u>Schools</u>	<u>Area Schools</u>	<u>Corporations</u>	<u>Townships</u>	<u>City Special Assessments</u>	<u>County Hospital</u>	<u>Brucellosis and Tuberculosis Eradication</u>
\$ <u>4,645,062</u>	\$ <u>193,897</u>	\$ <u>2,039,460</u>	\$ <u>104,863</u>	\$ <u>1,338</u>	\$ <u>1,180,597</u>	\$ <u>1,243</u>
4,195,928	183,875	2,329,608	104,905	-	1,256,433	968
216,256	9,092	83,282	5,615	-	55,472	56
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	25,927	-	-
-	-	-	-	-	-	-
<u>4,412,184</u>	<u>192,967</u>	<u>2,412,890</u>	<u>110,520</u>	<u>25,927</u>	<u>1,311,905</u>	<u>1,024</u>
-	-	-	-	-	-	-
4,751,576	198,550	2,019,665	109,332	23,537	1,210,081	1,234
-	-	-	-	-	-	-
<u>4,751,576</u>	<u>198,550</u>	<u>2,019,665</u>	<u>109,332</u>	<u>23,537</u>	<u>1,210,081</u>	<u>1,234</u>
\$ <u><u>4,305,670</u></u>	\$ <u><u>188,314</u></u>	\$ <u><u>2,432,685</u></u>	\$ <u><u>106,051</u></u>	\$ <u><u>3,728</u></u>	\$ <u><u>1,282,421</u></u>	\$ <u><u>1,033</u></u>

CLARKE COUNTY

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

Year Ended June 30, 2004

	Auto License and Use Tax	Anatomical Gift, Public Awareness and Transportation	Advance Tax	Tax Sale Redemption
ASSETS AND LIABILITIES				
Balances beginning of year	\$ 157,570	\$ -	\$ 134,992	\$ 7,725
Additions:				
Property and other County tax	-	-	-	-
State tax credits	-	-	-	-
Public Disaster Assistance Grants	-	-	-	-
Office fees and collections	-	-	-	-
Auto license, use tax, drivers license and postage	1,817,690	175	-	-
Trusts	-	-	-	226,453
Assessments	-	-	-	-
Miscellaneous	-	-	367,724	-
Total additions	1,817,690	175	367,724	226,453
Deductions:				
Agency remittances:				
To other funds	73,967	-	-	-
To other governments	1,732,356	175	363,313	-
Trusts paid out	-	-	-	232,777
Total deductions	1,806,323	175	363,313	232,777
Balances end of year	\$ 168,937	\$ -	\$ 139,403	\$ 1,401

See accompanying independent auditor's report.

<u>Emergency Management</u>	<u>County Recorder's Electronic Transaction Fee</u>	<u>Homemakers Health Payroll</u>	<u>Total</u>
\$ <u>5,996</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>8,855,969</u>
-	-	-	8,308,417
-	-	-	381,573
23,863	-	-	23,863
-	13,840	-	500,227
-	-	-	1,817,865
-	-	-	378,058
-	-	-	25,927
32,684	-	235,008	638,203
<u>56,547</u>	<u>13,840</u>	<u>235,008</u>	<u>12,074,133</u>
-	-	-	537,553
46,474	12,755	235,008	11,039,523
-	-	-	376,112
<u>46,474</u>	<u>12,755</u>	<u>235,008</u>	<u>11,953,188</u>
\$ <u><u>16,069</u></u>	\$ <u><u>1,085</u></u>	\$ <u><u>-</u></u>	\$ <u><u>8,976,914</u></u>

CLARKE COUNTY

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Property and other County tax	\$ 3,689,605	\$ 3,677,407	\$ 3,544,712	\$ 2,969,083
Interest and penalty on property tax	48,662	46,299	40,898	41,991
Intergovernmental	3,263,356	3,865,074	3,296,239	3,060,941
Licenses and permits	11,087	8,233	10,243	9,785
Charges for service	247,817	199,686	220,637	190,346
Use of money and property	87,039	71,234	106,949	215,366
Miscellaneous	259,402	220,805	326,540	401,875
Total	<u>\$ 7,606,968</u>	<u>\$ 8,088,738</u>	<u>\$ 7,546,218</u>	<u>\$ 6,889,387</u>
Expenditures:				
Operating:				
Public safety and legal services	\$ 1,324,079	\$ 1,257,151	\$ 1,205,360	\$ 877,980
Physical health and social services	849,017	825,843	813,756	748,396
Mental health	871,928	896,733	938,676	908,878
County environment and education	219,673	806,721	553,332	434,639
Roads and transportation	2,158,595	2,445,537	2,086,451	2,288,543
Government services to residents	275,606	247,941	226,008	202,215
Administration	679,515	611,669	577,535	532,727
Non-program	-	-	1,050	22,434
Debt service	652,823	557,948	4,066,917	386,033
Capital projects	427,080	159,419	168,955	3,322,159
Total	<u>\$ 7,458,316</u>	<u>\$ 7,808,962</u>	<u>\$ 10,638,040</u>	<u>\$ 9,724,004</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Officials of Clarke County:

We have audited the financial statements of Clarke County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 17, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Clarke County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the basic financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-B-04, II-J-04, and II-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clarke County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clarke County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for items I-A-04 and I-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clarke County and other parties to whom Clarke County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Clarke County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
December 17, 2004

CLARKE COUNTY
SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties

Comment – During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements. We noted that generally one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

	<u>Applicable Offices</u>
(1) All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received. The mail should then be forwarded to the accounting personnel for processing. Later, the same listing should be compared to the cash receipt records.	Ag Extension, Recorder, Sheriff
(2) Bank accounts should be reconciled promptly at the end of each month by an individual who does not sign checks or handle or record cash.	Ag Extension, Recorder, Sheriff, Treasurer
(3) Checks or warrants should be signed by an individual who does not otherwise participate in the preparation of the checks or warrants. Prior to signing, the checks or warrants and the supporting documentation should be reviewed for propriety.	Recorder, Sheriff
(4) After signing, the checks or warrants should be mailed without allowing them to return to individuals who prepare the checks or warrants or approve vouchers for payment.	Ag Extension, Auditor, Sheriff

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, each official should review the control procedures of their office to obtain the maximum internal control possible under the circumstances. The official should utilize current personnel to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons to the extent possible, and should be evidenced by the initials or signature of the reviewer and the date of the review.

CLARKE COUNTY
SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements (continued):

REPORTABLE CONDITIONS (continued):

I-A-04 Segregation of Duties (continued)

Responses –

Ag Extension – We will review procedures and try to make any necessary changes to improve internal control.

County Auditor – The Auditor is currently reviewing all disbursement transactions and documenting each review on the applicable disbursement records. Two individuals in most instances are now jointly involved in the check preparing, signing, and mailing process.

County Recorder – We have established a set of checks and balances to review each individual's work in the office, which gives us the maximum internal control possible using the limited number of office employees we have.

County Sheriff - We will review procedures and try to make any necessary changes to improve internal control.

County Treasurer – We have improved procedures during the year and will try to make any necessary changes to improve internal control in the future.

Conclusion – Responses accepted.

I-B-04 Disbursement Approval – Sheriff's Office

Comment – Forfeiture, D.A.R.E., and Canine Drug Dog revenues (including donations) are accumulated in the Sheriff's office trust accounts and have been used to directly pay for items such as Canine Drug Dog expenses, forfeiture fees, and equipment. Receipt and disbursement control lies in the hands of one individual.

Recommendation – This activity should be included in the County's annual budget and financial statements. Proceeds are accepted by the County with the understanding that they are for additional law enforcement efforts. This means that monies so designated are not to replace those already budgeted. The receipt and disbursement of proceeds of this type may require a budget amendment at some time before the end of the fiscal year. All proceeds disbursed should be charged to the appropriate expenditure account in accordance with the Uniform Chart of Accounts for County Governments in Iowa.

Response and Corrective Action Planned – We will determine the proper procedure to account for these funds.

Conclusion – Response acknowledged. However, we feel the procedures set forth in our recommendation should be followed to better account for the control of these funds.

CLARKE COUNTY
SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-04 Official Depositories – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the debt service function at year end and exceeded the amount budgeted in the capital projects function prior to the amendment of the budget. Also, disbursements in the Health Board department exceeded the amount appropriated.
- Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Chapter 331.434(6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the service area budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.
- Response – We will amend the budget when required. The appropriation was exceeded because of a misprint in the budget reports given to the departments.
- Conclusion – Response accepted.
- II-C-04 Questionable Expenditures – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- II-D-04 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- II-E-04 Business Transactions – No business transactions between the County and County officials or employees were noted.
- II-F-04 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be reviewed periodically to insure that the coverage remains adequate for current operations.
- II-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County’s investment policy were noted.
- II-I-04 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

CLARKE COUNTY
SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting (continued):

- II-J-04 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted.

The Board Treasurer's bond covered the amount required by Chapter 176A.14(5) of the Code of Iowa.

We noted that the detailed statement of receipts and disbursements was not published before August 1 as required by Chapter 176A.8(14) of the Code of Iowa.

Recommendation – The detailed report should be published timely to comply with Chapter 176A.8(14) of the Code of Iowa.

Response – We will make sure that the detailed statement of receipts and disbursements is published timely in the future.

Conclusion – Response accepted.

- II-K-04 Improper Accounting Procedures – The County is netting the weekly claims expenses of the Internal Service, Principal Health Fund against the revenues. This procedure does not allow the County to show the true costs for health insurance.

Recommendation – The County should record the weekly claims paid as an expense, not as a negative revenue.

Response – As of May 2004, we are recording the weekly claims paid as an expense of the Internal Service, Principal Health Fund.

Conclusion – Response accepted.

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